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**BEFORE THE ARIZONA CORPORATION COMMISSION**

Arizona Corporation Commission

**DOCKETED**

**MAR 16 2023**

DOCKETED BY

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JIM O'CONNOR  
Chairman  
LEA MÁRQUEZ PETERSON  
Commissioner  
ANNA TOVAR  
Commissioner  
KEVIN THOMPSON  
Commissioner  
NICK MYERS  
Commissioner

IN THE MATTER OF THE APPLICATION )  
OF ARIZONA PUBLIC SERVICE )  
COMPANY TO RESET THE ANNUAL )  
POWER SUPPLY ADJUSTMENT )  
SURCHARGE AND FOR RELATED )  
AUTHORIZATIONS. )

DOCKET NO. E-01345A-22-0297

DECISION NO. 78877

ORDER

Open Meeting  
February 22, 2023  
Phoenix, Arizona

BY THE COMMISSION:

FINDINGS OF FACT

**Background**

1. On December 1, 2022, Arizona Public Service Company ("APS" or "Company") filed an Application to reset its Power Supply Adjustment ("PSA") Surcharge ("PSA Reset Application"). The Application requests a change in the annual year-over-year surcharge cap on the adjustor to allow APS to more timely recover funds that have accumulated in the PSA balancing account. The PSA Reset Application includes three options to address the under-collected balance in the PSA account.

2. In accordance with the PSA Plan of Administration ("POA"), the annual adjustor rate change occurs on February 1, unless the Commission orders that it not go into effect at that time. Decision No. 78842 (January 23, 2022) ordered that none of the changes in the PSA Reset Application would take effect on February 1, 2023. Decision No. 78842 also ordered Arizona Corporation Commission ("Commission") Utilities Division Staff ("Staff") to file, by February 13, 2023, a Memorandum and Proposed Order providing its analysis of the PSA Reset Application and

1 recommendations for Commission action. It was also discussed at the January Open Meeting that  
2 Staff should include some history of the PSA, including the 90/10 sharing provision, in its  
3 Memorandum and Proposed Order.

4 Structure of the PSA

5 3. The PSA consists of a Forward Component and a Historical Component. The  
6 Forward Component consists of the forecasted fuel and purchased power costs for the PSA year  
7 (consecutive 12-month period generally beginning each February 1), less the average Base Cost of  
8 Fuel and Purchased Power reflected in base rates (currently \$0.031950 per kilowatt-hour ["kWh"]).  
9 The Historical Component reconciles any over-recovered or under-recovered amounts from the  
10 preceding PSA year to be credited to, or recovered from, customers in the next PSA year.

11 4. APS is required to file the PSA rate for the upcoming year on or before November  
12 30 of each year. Staff and interested persons or parties have an opportunity to review the PSA filing.  
13 The proposed PSA rate goes into effect with the first February billing cycle unless the Commission  
14 has otherwise acted on the APS calculation by February 1.

15 5. The PSA rate charged to APS customers is currently set at \$0.007544 per kWh. The  
16 new PSA rate, calculated in accordance with the PSA POA, would be \$0.011544 per kWh, consisting  
17 of a Forward Component rate of \$(0.001527) per kWh and a Historical Component rate of \$0.013071  
18 per kWh. The POA provides for the PSA rate increase to be capped at \$0.004 per year. If necessary,  
19 the Forward Component rate is adjusted to ensure the total PSA rate increase does not exceed \$0.004  
20 per kWh.

21 6. The POA also provides for a Transition Component to allow APS to seek mid-year  
22 changes in the PSA rate in cases where variances between the anticipated recovery of allowable  
23 costs for the PSA Year under the combination of base rates and the Forward Component become so  
24 large as to warrant recovery/refund, should the Commission deem such an adjustment to be  
25 appropriate or if APS requests to make such a refund of an over-collection. If a Transition  
26 Component is allowed, that rate is added to the Forward and Historical component rates to create a  
27 new PSA rate that is subject to the \$0.004 per year cap.

28 . . .

7. In accordance with the POA, interest is applied on the PSA balance annually at the following rates: any over-collection existing at the end of the PSA year will be credited an amount equal to interest at a rate equal to the Company's authorized Return on Equity ("ROE") or APS's then-existing short-term borrowing rate, whichever is greater, and will be refunded to customers over the following 12 months; any under-collection existing at the end of the PSA year will be debited an amount equal to interest at a rate equal to the Company's authorized ROE or APS's then-existing short-term borrowing rate, whichever is less, and will be recovered from customers over the following 12 months. In January 2022, the interest rate of 0.10 percent was applied to the under-collected balance. The rate to be applied to the under-collected balance in January 2023 will be 0.40 percent.

#### APS's Proposed Options

8. APS included three options in its Application. Each one is described below:

##### **APS Option One - Transition Component Adjustment**

APS's Option One adds a Transition Component rate of \$0.014340 per kWh to the calculation of the PSA rate and increases the annual cap from \$0.004 per kWh to \$0.018340 per kWh to allow a total PSA rate of \$0.025884 per kWh. This option would eliminate the current under-collected balance over a 12-month period.

##### **APS Option Two – Permanent Increase to the Annual Cap**

APS's Option Two proposes a permanent increase to the annual cap from \$0.004 per kWh to \$0.006 per kWh. This option would allow the Forward Component rate to increase from \$(0.001527) per kWh to \$0.000473 per kWh, and the total PSA rate of \$0.013544 per kWh would be allowed under the new cap. There would be no Transition Component rate under this option.

##### **APS Option Three – Temporary Increase to the Annual Cap**

APS's Option Three is similar to Option Two except that the increase to the annual cap would only be temporary and would end on January 31, 2025 (end of the 2024 PSA year). APS would expect to recover about \$406 million of under-collected costs during the two years.

#### History of the PSA and 90/10 Sharing

9. Decision No. 67744 (Docket No. E-01345A-03-0437; rate case) established the PSA for APS. A base cost of power is set in rates through rate case proceedings. The PSA is used to track changes in the costs of both fuel and purchased power between rate cases. Among other

1 features, the PSA included an incentive mechanism where APS and its customers shared in the costs  
2 or savings. The percentage of sharing was 90 percent for customers and 10 percent for APS. In  
3 addition, customers received the benefits of all off-system sales margins through a credit to the PSA  
4 balance.

5 10. Decision No. 69663 (Docket Nos. E-01345A-05-0826 and E-01345A-05-0827; rate  
6 case) modified the PSA to add the Forward Component. It also modified the 90/10 sharing to  
7 exclude the following costs:

- 8 • The fixed or demand element of long-term Purchase Power Agreements  
9 acquired through competitive procurement, and
- 10 • The costs of renewable energy acquired from third parties and not otherwise  
11 recoverable under the Environmental Portfolio Standard/Renewable Energy  
12 Standard.

13 11. Decision No. 71448 adjusted the PSA to allow gains on sulfur dioxide allowances  
14 over or under the \$7.045 million in base rates to be recovered/refunded through the PSA.

15 12. Decision No. 73183 (5/24/12; E-01345A-11-0224; rate case) eliminated the 90/10  
16 sharing provision in the PSA because it was not a benefit to ratepayers at that time.

17 13. Decision No. 73650 amended the PSA POA to allow recovery of the cost of carbon  
18 dioxide allowances needed for off-system sales to California.

19 14. Decision No. 76295 allowed inclusion of chemical costs incurred in the generation  
20 process. Third-party storage expenses were also allowed to be included if APS filed for approval to  
21 include any such third-party storage contract 90 days before it becomes effective.

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## Staff Analysis and Recommendations

15. Staff has analyzed APS's proposed three options. Staff also considered the option of using the PSA rate as calculated in accordance with the PSA POA, without a Transition Component rate or an increased cap. All of these options are presented in the table below, including bill impacts to residential customers and the PSA bank balance<sup>1</sup> projected at the end of one year.

16. In addition, Staff requested its consultant Larkin & Associates, PLLC to review the filing and supporting workpapers. The consultant's report is attached.

	Current PSA Rates	Plan of Administration Calculation	APS Option 1 Transition Component with Increase to Cap	APS Options 2 (permanent) & 3 (temporary) Increase Cap to \$0.006
Forward rate \$/kWh	\$(0.004842)	\$(0.001527)	\$(0.001527)	\$0.000473
Historical rate \$/kWh	\$0.012386	\$0.013071	\$0.013071	\$0.013071
Transition rate \$/kWh	0	0	\$0.014340	0
Total PSA rate \$/kWh	\$0.007544	\$0.011544	\$0.025884	\$0.013544
Average residential bill impact \$/month – beyond current \$7.92 average \$12.21 on demand rate		average \$4.20 on demand rate \$6.48	average \$19.26 on demand rate \$29.70	average \$6.31 on demand rate \$9.72
Average residential bill impact %		average 2.77% on demand rate 3.05%	average 12.70% on demand rate 13.99%	average 4.16% on demand rate 4.58%
Estimated bank balance after 1 year	\$625 million	\$506 million	\$83,000	\$437 million

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<sup>1</sup> These balances are projected and will certainly change over time, and any difference from the balances in this document will be addressed through the balancing account. These numbers have been provided solely for purposes of the above-referenced matter and are not to be used to be relied upon for purposes of trading any security.

17. Staff recommends approval of APS's Option Three because it results in a reduced under-collected balance with modified bill impacts to the residential ratepayers.

18. Based on the scenarios included in APS's filing dated February 23, 2023, it is reasonable to set the PSA rate at \$0.019074 per kWh until further order of the Commission. According to APS, this rate is projected to approach a near-zero under-collected balance in 24 months and results in an estimated average residential bill impact of \$12.10 per month.

## CONCLUSIONS OF LAW

1. Arizona Public Service Company is an Arizona public service corporation within the meaning of Article XV, Section 2, of the Arizona Constitution.

2. The Commission has jurisdiction over Arizona Public Service Company and over this subject matter.

3. The Commission concludes that it is in the public interest to direct Arizona Public Service Company to implement the 2023 Power Supply Adjustor as described herein to address the large under-collected balance that has accumulated.

ORDER

IT IS THEREFORE ORDERED that Arizona Public Service Company's Power Supply Adjustor rate shall be set at \$0.019074 per kWh beginning with the first billing cycle in March 2023 and continuing until further order of the Commission.

IT IS FURTHER ORDERED that if Arizona Public Service Company's Power Supply Adjustor bank balance approaches \$500,000 under-collected, the Company shall make a filing in the docket notifying the Commission.

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IT IS FURTHER ORDERED that Arizona Public Service Company file with Docket Control a revised Adjustment Schedule PSA-1 consistent with this Decision within 15 days of the effective date of this Decision.

IT IS FURTHER ORDERED that this Decision shall become effective immediately.

**BY THE ORDER OF THE ARIZONA CORPORATION COMMISSION**

  
CHAIRMAN O'CONNOR

  
COMMISSIONER MARQUEZ PETERSON

**DISSENT**

COMMISSIONER TOVAR

  
COMMISSIONER THOMPSON

  
COMMISSIONER MYERS



IN WITNESS WHEREOF, I, KIM BATTISTA, Interim Executive Director of the Arizona Corporation Commission, have hereunto, set my hand and caused the official seal of this Commission to be affixed at the Capitol, in the City of Phoenix, this 15<sup>th</sup> day of MARCH, 2023.

  
KIM BATTISTA  
INTERIM EXECUTIVE DIRECTOR

DISSENT: Anna Tovar

DISSENT: \_\_\_\_\_

EOA:BEK:elr/MAS

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2 Docket No. E-01345A-22-0297

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**Arizona Public Service Company**  
**Power Supply Adjustment Surcharge Reset**  
**Docket No. E-01345A-22-0297**

To: Arizona Corporation Commission Utilities Division Staff ("Staff")  
From: Larkin & Associates, PLLC; Ralph Smith, CPA; Mark Dady, CPA, Megan Cranston,  
Dawn Bisdorf ("Larkin")  
Date: February 13, 2023 [Draft02]  
Docket No. E-01345A-22-0297  
Re: APS PSA Rate to be effective March 1, 2023

**Background**

We were contracted by the Staff in February 2023 to review APS's Application to reset the PSA Surcharge.

Since its last PSA reset, APS's power costs have increased substantially, and the Company has been accumulating a significant and growing undercollected balance in its PSA balancing account. APS's PSA was scheduled to be reset effectively on February 1, 2023, but in Decision No. 78842, dated January 23, 2023, the Commission determined that it is just and reasonable and in the public interest for the Commission to override the February 1, 2023, effective date for the PSA Reset Application and instead require Staff to provide its recommendations in a Memorandum and Proposed Order to be filed by February 13, 2023.

Staff asked Larkin to review APS's Application and supporting information, including the options proposed by APS and for Larkin to provide a Memorandum to Staff describing our review, to be filed concurrently with Staff's Memorandum. This Memorandum is intended to be responsive to that request.

APS's Application indicates that due to rising fuel costs and market volatility, the Company's under-collected PSA balance has risen from \$175 million in January 31, 2021, to \$456 million as of October 31, 2022 and APS has projected further increases in the PSA balancing account under-collection after October 2022.

To address the growing PSA undercollected balancing account balance and to provide alternatives for the Commission's consideration, APS proposed three alternatives in its November 30, 2022 PSA reset application.

Under the first option, APS proposes a PSA surcharge of \$0.025884 per kWh through an adjustment to the Transition Component of the PSA calculation to address the significant imbalance between the anticipated collections and costs for the 2023 PSA year. The first option proposes a PSA increase of \$0.01834 per kWh over the current PSA surcharge that became effective on February 1, 2022. APS provided information supporting this PSA surcharge calculation for its 2023 PSA year in Exhibit A to its November 30, 2022 Application and in Excel files that were provided to Staff. The proposed PSA surcharge under option one would allow APS recovery of \$805 million of under-collected power costs and would substantially reduce APS's projected PSA balancing account for the period ending January 31, 2024.

Under the second option, APS proposes a PSA surcharge of \$0.013544 per kWh to address the significant undercollected amount that APS shows in the PSA balancing account. APS's second option includes a permanent increase of the annual PSA surcharge cap from \$0.004 per kWh to \$0.006 per kWh. APS provided information supporting its second option PSA surcharge calculation for the 2023 PSA year with the Company's Application as Exhibit B and in Excel files that were provided to Staff. APS's proposed PSA surcharge under option two would allow recovery of approximately \$406 million of under-collected fuel and purchased power costs, and APS indicates that this option would also help mitigate further expansion of the PSA balancing account. Under option two, APS projects that its under-collected PSA balance ending January 31, 2024 will be more moderately reduced from its current level than under the option one.

Under the third option, APS requests that the Commission approve a PSA surcharge of \$0.013544 per kWh, similar to the rate proposed by APS under the second option, above. The third option would include a temporary increase to the annual PSA surcharge cap from \$0.004 per kWh to \$0.006 per kWh through the end of the 2024 PSA year, after which time the annual PSA surcharge increase cap would return to \$0.004 per kWh. APS provided the same information supporting the PSA surcharge calculation under option three as it did for option two, which was presented in Exhibit B to APS's November 30, 2022 application and supported by Excel files that APS provided to Staff. Similar to option two, the PSA surcharge under APS's proposed option three would allow recovery of approximately \$406 million of APS's under-collected fuel and purchased power costs and would temporarily mitigate expansion of the PSA balancing account.

Each of APS's proposed three options would involve Commission authorization for APS to increase the PSA surcharge annual cap of \$0.004 per kWh to facilitate a more timely recovery of by APS of the under-collection of the Company's fuel and purchased power costs.

Larkin notes that APS's fuel and purchased power costs after January 2021 have not yet been reviewed for prudence.<sup>1</sup> Such costs, and APS's hedging program, are to be reviewed for prudence in APS's currently pending rate case, Docket No. E-01345A-22-0144. In the currently pending rate case, APS's calculation of the base cost of fuel will also be reviewed.

Upon Staff's request, Larkin conducted a review of APS's Application for the PSA reset in Docket No. E-01345A-22-0297. This included a review of calculations that APS attached to that Application and some review of the supporting Excel files that APS provided to Staff, which contained additional details and supporting information. Our review of that APS information was limited by time constraints. Based on our limited review, Larkin did not identify errors or irregularities in the calculations that were submitted by APS in its November 30, 2022 application for the Company's proposed 2023 PSA surcharge re-set.

Larkin was also requested by Staff to provide a recommendation on the options proposed by APS and/or to provide an additional alternative, if none of APS's three proposed options were deemed to be reasonable.

Based on our review of the three options proposed by APS, we recommend option three. In our opinion, option three balances the interests of APS and its customers of the impacts of highly variable fuel and purchased power costs and sends a signal to customers about the cost of energy,

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<sup>1</sup> APS's PSA includable costs for the period January 2019 through January 2021 were reviewed for prudence as discussed in the March 31, 2022 *Report On The Fuel And Purchased Power Audit Of Arizona Public Service Company* prepared by Larkin and Energy Ventures Analysis, Inc. in Docket No. E-01345A-21-0056.



and limits the increase in the PSA cap to a temporary period of two years. Due to a need to address APS's under-collected PSA balance, some increase in the PSA cap at this time appears to be warranted. The balanced approach provided in APS's option three is consistent with our understanding of the intention of the PSA to allow APS to allow APS to recover (or refund) the portion of its fuel and purchased power cost that is not being recorded in APS's base rates, while providing for a limitation on the annual PSA increases. Keeping the PSA cap at its present level of \$0.004 per kWh would be an option that APS has not proposed; however, that option would likely result in APS's building up even larger PSA under-collections which APS would have to finance. Having the PSA provide for relatively prompt and concurrent recovery of APS's fluctuating power costs appears to be an important supportive factor for APS's ability to maintain its credit ratings. We note that APS is by no means alone in the utility industry in experiencing increased costs of fuel and purchased power in recent years. Providing for relatively timely recovery of APS's fluctuations in fuel and purchased power costs through the PSA thus importantly helps preserve the Company's financial integrity and its ability to serve customers, and its ability to obtaining financing at reasonable rates.

APS's option three appears to represent a reasonable approach to addressing the PSA under-recovered balance and mitigating growth in that balance, while providing for a gradual approach to addressing APS's substantially increased power costs. We believe that option three is reasonable and is preferable to options one and two for the reasons discussed below.

Unlike APS's proposed option one, which would provide for recovery of approximately \$805 million of APS's projected PSA balancing account under-recovered amount, APS's option three (and APS's option two) provides for recovery of approximately \$406 million of under-recovered fuel and purchased power costs.

Also, APS's option one would entail a PSA rate increase of \$0.18340 per kWh, which results in a much higher PSA rate increase than under options two and three, each of which has some form of PSA rate increase limitation associated with applying a \$0.006 per kWh cap.

We believe that option three is preferable to APS's option two because option two would entail a permanent increase in the PSA cap, whereas option three provides for a temporary increase in the cap for two years. We do not believe that a permanent increase in the annual PSA cap from \$0.004 to a new cap level of \$0.006 per kWh as proposed by APS in the Company's option two is justified at this time. A temporary increase in that cap for two years appears as proposed in APS's option three appears to be reasonable as a way of addressing APS's under-collected PSA balances while limiting annual PSA increases. Under APS's option three, the PSA cap would revert to \$0.004 per kWh after the end of the 2024 PSA year which runs from February 1, 2024 to January 31, 2025.

Finally, we believe it is important to note that APS's PSA includable costs after January 2021 are subject to being reviewed for prudence in APS's current pending rate case. Having such a prudence review is a form of regulatory protection for ratepayers on APS's recovery of PSA includable costs. The prudence reviews serve as an additional safeguard to help assure that ratepayers will not be required to bear costs that have been found to be imprudent based on the circumstances existing at the time decisions were made by APS.

COMMISSIONERS  
Jim O'Connor - Chairman  
Lea Márquez Peterson  
Anna Tovar  
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ARIZONA CORPORATION COMMISSION  
OFFICE OF COMMISSIONER ANNA TOVAR

March 15, 2023

Docket Control  
Arizona Corporation Commission  
1200 W. Washington St.  
Phoenix, AZ 85007

**Re: Arizona Public Service Company - In the Matter of the Application of Arizona Public Service Company to Reset the Annual Power Supply Adjustment Surcharge and for Related Authorizations (E-01345A-22-0297).**

My fellow Commissioners,

I could not support this Decision because it will result in rate shock for residential customers and the surcharge is for the purchase of fuel used at APS' gas generation facilities.

APS requested a reset of power supply adjustment surcharge to collect the arrears that accumulated over the course of the last several years. The PSA surcharge is based on a residential customer's monthly usage. The surcharge scales depending on the time of year, with the largest increases hitting bills in the summer. For example, the surcharge adopted in this Decision results in a bill increase for residential customers of \$1.54 for those using 100 kW per month, \$23.10 for those using 1,500 kW per month, and \$53.91 for those using 3,500 kW per month. This could have been mitigated by extending the time to recover or rolling a portion of the arrears into APS' pending rate case.

In addition, fifty percent of the surcharge is for fuel used at APS' fleet of gas generating plants. The lifetime costs of generating resources are sometimes overlooked when we evaluate resource procurement. Gas generating facilities require the purchase of fuel for the useful life of the plant. Cleaner generating options do not.

I cannot support a Decision that results in rate shock when other cleaner resources are available and extending recovery or rolling the arrears into the pending rate case would promote gradualism for residential customers.

Sincerely,

Anna Tovar  
Commissioner